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Tobacco and Products

Annual

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Report Highlights:

Korea's leaf tobacco and cigarette production are expected to decline with falling domestic support and greater market competition accompanying the removal of the Korea Tobacco and Ginseng Co. (KTGC) monopoly authority over the domestic tobacco industry. Imports of flue-cured tobacco from the U.S. and oriental leaf tobacco should increase slightly as KTGC raises production of popular brands that require such inputs to improve quality and taste. The Tobacco Business Act implementation details have yet to be released though the revision is scheduled to go into effect in July.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Current Situation and Outlook

General Economic Situation

For CY 2001, Korea's GDP growth is forecast at 3-4 percent, well below the 9 percent growth achieved in 2000. Uncertainties over the domestic economy and softness in demand in the U.S. and Japan, Korea's two largest export markets, are dampening consumer confidence and corporate capital investment. Other factors contributing to the lower GDP growth projection include: 17 percent local currency devaluations over the past six months, consumer inflation increase to 4.2 percent (the government forecast was 3.5 percent), an unemployment rate rise in March to 4.8 percent (the government target was 3.7 percent) which broke the psychologically important mark of one million jobless people. Private consumption is forecast to remain weak in terms of the rising consumer prices and unemployment rate and slowing growth of nominal wages.

Tobacco Situation and Outlook

CY 2001 leaf tobacco production is forecast to decline as support from the Korea Tobacco and Ginseng Co. (KTGC) should diminish with the abolition of its monopoly over domestic cigarette manufacturing. The ongoing contraction of the Korean tobacco production sector witnessed over the last five years should continue as a result. An aging farm population, lower market returns and sectorial entry restrictions should continue to sway production inputs toward alternative uses. Future contraction is predictable given the large stocks KTGC has had to carry in recent years. In recent years KTGC efforts to control domestic production using resource allocation tools, such as contract farming and price caps on market purchases of different tobacco varieties, are having an effect. CY 2000 production went against the grain of recent years as supporters of the Tobacco Business Act (TBA) revision offered larger producer incentives that when coupled with excellent growing conditions resulted in output exceeding initial projections.

Total leaf tobacco consumption is forecast to decline in CY 2001 in line with reduced demand expected by KTGC for cigarette manufacturing. However, consumption of imported leaf is expected to rise as KTGC will seek to protect market shares during its privatization transition period by marketing popular domestic brand cigarettes which are high in foreign tobacco content. Also, as now having to operate in a profit-oriented environment, KTGC will focus on lowering production costs by using cheaper inputs and reducing storage charges by drawing down large inventories estimated at 1-2 years worth of supplies.

In the longer run, domestic and imported tobacco leaf consumption should come into balance. Domestic content will be needed in order to maintain a local production base as insurance against rising international prices and unforeseen requirements in the future, and to differentiate locally manufactured products for those consumers holding brand loyalty and a sense of nationalism.

In CY2001, lower utilization of local tobacco leaf should lead to higher imports of cheap flue-cured tobacco, mostly from Brazil. Brazilian flue-cured tobacco currently markets at one-fourth the price of local leaf tobacco. In CY 2000, Brazilian flue-cured tobacco was utilized mostly for cigarettes destined for the export market. Also in CY 2000 a limited quantity of North Korean flue-cured tobacco (about 700MT) was used in production of the South/North Korea jointly marketed "Hanmaum" cigarette. In CY 2001, oriental tobacco imports should remain unchanged as that variety and flue-cured tobacco from the U.S. are key quality and flavor ingredients for Korean cigarettes.

In CY 2001 Korea may attempt more barter trade with Turkey in effort to draw down large domestic stocks of burley tobacco. However, as details of last year's arrangement show, such business is not profitable. The reported export price (FOB\$3.85 per ton) was substantially below its purchase price (\$4.74 per ton).

The CY 2001 Tobacco Business Act (TBA) revision, which goes into effect July 1, 2001, should introduce major fundamental changes in the Korean tobacco industry. The revision opens the market to foreign investment in domestic manufacturing facilities and opens the possibility of a resurrected import tariff on cigarettes. New regulations to be issued shortly, should lift the shroud of uncertainty surrounding the TBA's implementation. Major issues and implications of the TBA revision are summarized in KS0117.

Strong farmer opposition to the TBA revision had delayed National Assembly approval until March 8, 2001. While few official details are available on the trade-offs given for passage, local press reports follow-up measures (unconfirmed) including:

- KTGC maintaining its purchase policy of 100 percent of the domestic tobacco crop through 2008.
- the government's building of a 410 billion won tobacco farming protection fund by 2008 via imposition of a 10-12 won cigarette pack surcharge.

Privatization of KTGC is moving slowly. As of April 2001, KTGC was still 53 percent government owned. Of the 47 percent non-government owned shares 18 percent are held by the general public, 10 percent are held by international institutions in the form of exchangeable bonds, and 19 percent are held by the Hankuk Trust & Investment Co. etc.

To make itself more attractive to private investors KTGC has been restructuring operations to enhance competitiveness and maximize market value. It is producing a broader variety of tobacco products, enhancing farmers' income via large scale-collective tobacco farming, and downsizing human resources to enhance profitability.

Cigarette Situation and Outlook

CY2001 cigarette production is forecast to decline in response operational changes being implemented by KTGC in preparation for privatization and to rising imports of foreign brand cigarettes now in higher demand for their lighter, milder taste.

In CY 2000, the most popular domestic brands were THIS, holding a 47 percent market share, followed by ESSE, holding a 7.5 percent market share. New premium cigarette brands introduced in the past year included HANMAUM (joint brand with North Korea), TIMELESS TIME, MOUNT CLASS.

In CY 2001 overall cigarette consumption is forecast to decline somewhat due to retail price increases brought with new cigarette taxes and charges, and the escalating anti-smoking campaign. Since January 1, 2001, cigarette retail prices have risen, on average 12 percent, in response to hikes in the tobacco consumption tax and provincial education tax. Cigarette prices are likely to rise further given government plans to:

- impose a 10-12 won per pack charge to fund the tobacco farmers' protection fund,
- increase to 10 won from 2 won the charge to fund the public health promotion fund,
- impose a cigarette tariff of 20 to 40 percent on imported cigarettes.

However, when to implement such charges and taxes has yet to be determined. In reaction to recent anti-smoking campaigns, the President ordered tougher smoking regulations be extended to more nonsmoking areas and reform of cigarette tax regulations. The President's directive will impose the no smoking policy on all government facilities.

Cigarette imports in CY 2001 are expected to exceed year earlier levels as intensive marketing campaigns appear to be expanding consumer demand among the younger population. Industry expectations are for foreign brand cigarettes to capture a 13 percent market share this year, following a 9.7 percent share in 2000 and 6.4-share in 1999. The top two foreign brands remain Mild Seven, holding a 3.5 percent market share, and Virginia Slims, holding a 2.3 percent share. The resurrection of a tariff on imported cigarettes will increase the cost for foreign cigarettes, in the process widen the price gap with local products at retail and impact the overall market share of foreign brand cigarettes.

In CY 2001, KTGC's export policy should result in higher volumes of cigarettes moving overseas. In CY 2000, KTGC exports grew 255 percent. A number of foreign buyers found attractive the extended credit period offered by KTGC.

KTGC has plans to build a new cigarette manufacturing plant in North Korea having an annual production capacity of two billion cigarettes to service the markets in Central Asia and China. The factory would be the hub of KTGC's cigarette exports as shipping costs and transportation times could be shortened considerably from that location.

Statistical Tables

PSD Tables

PSD Table - Tobacco, Unmfg, Total

PSD Table						
Country	Korea, Republic of					
Commodity	Tobacco, Unmfg., Total (HA)(MT)					
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	24886	24886	24300	24300	0	23900
Beginning Stocks	132329	132329	127909	127909	119484	126473
Farm Sales Weight Prod	65444	65444	59600	68198	0	60000
Dry Weight Production	58900	58900	53660	61378	0	54000
U.S. Leaf Imports	5934	5934	6000	5325	0	5500
Other Foreign Imports	6847	6847	5500	6986	0	10000
TOTAL Imports	12781	12781	11500	12311	0	15500
TOTAL SUPPLY	204010	204010	193069	201598	119484	195973
Exports	5618	5618	6500	3585	0	3800
Dom. Leaf Consumption	56983	56983	55000	60040	0	53500
U.S. Leaf Dom. Consum.	7000	7000	6000	5000	0	5000
Other Foreign Consump.	6500	6500	6085	6500	0	8000
TOTAL Dom. Consumption	70483	70483	67085	71540	0	66500
TOTAL Disappearance	76101	76101	73585	75125	0	70300
Ending Stocks	127909	127909	119484	126473	0	125673
TOTAL DISTRIBUTION	204010	204010	193069	201598	0	195973

PSD Table- Burley Tobacco

PSD Table						
Country	Korea, Republic of					
Commodity	Tobacco, Unmfg., Burley (HA)(MT)					
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	7432	7432	7120	7116	0	6800
Beginning Stocks	54054	57905	52358	55262	49158	54705
Farm Sales Weight Prod	22399	22399	19200	22128	0	18000
Dry Weight Production	20159	20159	17300	19915	0	16200
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	74213	78064	69658	75177	49158	70905
Exports	4772	4772	4500	2793	0	3000
Dom. Leaf Consumption	17083	18030	16000	17679	0	16500
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	17083	18030	16000	17679	0	16500
TOTAL Disappearance	21855	22802	20500	20472	0	19500
Ending Stocks	52358	55262	49158	54705	0	51405
TOTAL DISTRIBUTION	74213	78064	69658	75177	0	70905

PSD Table - Flue-cured Tobacco

PSD Table						
Country	Korea, Republic of					
Commodity	Tobacco, Unmfg., Flue Cured (HA)(MT)					
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Area Planted	17454	17454	17180	17186	0	17100
Beginning Stocks	71086	71086	68962	68962	65822	68268
Farm Sales Weight Prod	43045	43045	40400	46070	0	42000
Dry Weight Production	38741	38741	36360	41463	0	37800
U.S. Leaf Imports	5934	5934	6000	5325	0	5500
Other Foreign Imports	0	0	0	2404	0	4000
TOTAL Imports	5934	5934	6000	7729	0	9500
TOTAL SUPPLY	115761	115761	111322	118154	65822	115568
Exports	846	846	1000	792	0	800
Dom. Leaf Consumption	38953	38953	38500	42094	0	37000
U.S. Leaf Dom. Consum.	7000	7000	6000	5000	0	5000
Other Foreign Consump.	0	0	0	2000	0	3500
TOTAL Dom. Consumption	45953	45953	44500	49094	0	45500
TOTAL Disappearance	46799	46799	45500	49886	0	46300
Ending Stocks	68962	68962	65822	68268	0	69268
TOTAL DISTRIBUTION	115761	115761	111322	118154	0	115568

PSD Table - Cigarette

PSD Table						
Country	Korea, Republic of					
Commodity	Tobacco, Mfg., Cigarettes (MIL PCS)					
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Filter Production	97135	97135	94000	98286	0	95500
Non-Filter Production	0	0	0	0	0	0
TOTAL Production	97135	97135	94000	98286	0	95500
Imports	6525	6525	7200	9378	0	13000
TOTAL SUPPLY	103660	103660	101200	107664	0	108500
Exports	2629	2629	2700	6712	0	9000
Domestic Consumption	101031	101031	98500	100952	0	99500
TOTAL DISTRIBUTION	103660	103660	101200	107664	0	108500

Production Table - Unmanufactured Tobacco Total

	Area Planted			Production		
	(HECTARES)			Metric Tons		
	1998	1999	2000	1998	1999	2000
Tobacco, Unmfg., Burley	7432	7116	6800	22399	22128	18000
Dark Air & Sun Cured	0	0	0	0	0	0
Dark Air Cured	0	0	0	0	0	0
Dark Fire Cured	0	0	0	0	0	0
Tobacco, Unmfg., Flue Cured	17454	17186	17100	43045	46070	42000
Light Air Cured	0	0	0	0	0	0
Tobacco, Unmfg., Oriental	0	0	0	0	0	0
Tobacco, Unmfg.	24886	24302	23900	65444	68198	60000

Trade Matrix**Korea: Total Imports of Unmanufactured Tobacco for CY2000 - 2001**

Country	2000		2001 (Jan-Feb)	
	MT	\$1,000	MT	\$1,000
U.S.A.	5,325	44,705	0	0
Turkey	2,845	11,088	0	0
Brazil	2,404	7,144	485	1,308
Greece	1,490	9,763	575	3,887
Bulgaria	247	1,161	0	0
Total	12,311	73,861	1,060	5,195

Source: Korea Trade Information Services

Korea: Imports of Burley for CY2000 - 2001

Country	2000		2001 (Jan-Feb)	
	MT	1,000	MT	1,000
U.S.A.	0	0	0	0
Other	0	0	0	0
Total	0	0	0	0

Source: Korea Trade Information Services

Korea: Imports of Flue-cured for CY2000 - 2001

Country	2000		2001 (Jan-Feb)	
	MT	1,000	MT	1,000
U.S.A.	5,325	44,705	0	0
Brazil	2,404	7,144	485	1,308
Total	7,729	51,849	485	1,308

Source: Korea Trade Information Services

Korea: Imports of Oriental for CY 2000 -2001

Country	2000		2001 (Jan-Feb)	
	MT	1,000	MT	1,000
Turkey	2,845	11,088	0	0
Greece	1,490	9,763	575	3,887
Bulgaria	247	1,161	0	0
Total	4,582	22,012	575	3,887

Source: Korea Trade Information Services

Korea: Total Exports of Unmanufactured Tobacco for CY 2000 -2001

	2000		2001 (Jan-Feb)	
	MT	1,000	MT	\$1,000
Turkey	1,595	7,653	0	0
Egypt	500	1,200	0	0
Greece	657	2,472	0	0
France	209	1,029	0	0
Belgium	199	699	0	0
Iran	198	606	0	0
Spain	190	838	0	0
Indonesia	36	167	0	0
Total	3,584	14,664	0	0

Source: Korea Trade Information Services

Korea: Exports of Burley Tobacco CY 2000 - 2001

Country	2000		2001 (Jan-Feb)	
	MT	\$1,000	MT	\$1,000
Turkey	1,080	5,069	0	0
Egypt	500	1,200	0	0
Greece	380	1,136	0	0
France	209	1,029	0	0
Belgium	199	699	0	0
Iran	198	606	0	0
Spain	190	838	0	0
Indonesia	36	167	0	0
Total	2,792	10,744	0	0

Source: Korea Trade Information Services

Korea: Exports of Flue-cured Tobacco for CY 2000 -2001

Country	2000		2001 (Jan-Feb)	
	MT	1,000	MT	\$1,000
Turkey	515	2,584	0	0
Greece	277	1,336	0	0
Total	792	3,920	0	0

Source: Korea Trade Information Services

Korea: Imports of Filter Tip Cigarettes for CY 2000 - 2001

Country	2000		2001 (Jan-Feb)	
	MT	\$1,000	MT	\$1,000
JAPAN	3,482	69,381	581	9,522
U.S.A	4,513	94,950	275	5,232
U. KINGDOM	1,315	22,613	233	2,678
GERMANY	620	20,078	137	3,739
SPAIN	18	180	56	557
NETHERLAND	17	338	-	6
Other	19	409	0	0
Total	9,984	207,949	1,283	21,734

Source: Korea Trade Information Services

Korea: Exports of Filter Tip Cigarettes for CY 2000 - 2001

Country	2000		2001 (Jan-Feb)	
	MT	\$1000	MT	\$1000
U.A.E.	2,739	9,147	725	2,769
AFGHANISTAN	1,675	5,844	668	2,683
U.S.A	405	7,076	126	2,409
UZBEKISTAN	606	1,843	299	1,135
OMAN	580	1,874	95	361
JORDAN	72	343	43	189
PANAMA	38	198	14	69
PR.CHINA	40	401	7	57
MONGOLIA	9	58	6	52
Other	2,695	10,012	16	130
Total	8,857	36,796	1,999	9,854

Source: Korea Trade Information Services

Price Tables**Korea: Purchase Price of Burley and Flue-cured Tobacco by KT&G for 2000 (Unit in Kg/Won)**

Stalk Position	Leaf & Cutter				Tip & Lug		
Grade	No. 1	No. 2	No. 3	No. 4	No. 1	No. 2	No. 3
Burley	6,360	5,750	5,200	4,230	5,410	4,570	3,950
Flue-cured	7,370	6,670	5,960	4,850	6,270	5,220	4,480

Source: KTGC

Korea: Import Prices of Flue-cured and Oriental Tobacco (US\$/Kg, CIF basis)

Year	1994	1995	1996	1997	1998	1999	2000
Flue-cured	5.91	7.39	8.41	9.07	9.16	8.49	6.71
Oriental	4.59	5.02	5.45	5.45	6.07	5.37	4.8

Source: Korea Trade Information Services

Korea: Export Prices of Burley and Flue-cured Tobacco (US\$/Kg, FOB basis)

Year	1994	1995	1996	1997	1998	1999	2000
Burley	6.99	8.11	4.6	No trade	4.33	4.13	3.85
Flue-cured	6.11	6.06	4.43	4.14	4.31	4.87	4.95

Source: Korea Trade Information Services

Korea: Domestic and Foreign Cigarette Sales (unit in Million pieces)

Year	Domestic	Growth	Foreign	Growth	Total	Growth
1990	91,527	4.0%	4,188	-0.4%	95,715	3.8%
1991	93,848	2.5%	4,990	19.2%	98,838	3.3%
1992	96,356	2.7%	5,333	6.9%	101,689	2.9%
1993	99,119	2.9%	7,158	34.2%	106,277	4.5%
1994	87,699	-11.5%	8,549	19.4%	96,248	-9.4%
1995	88,293	0.7%	12,490	46.1%	100,783	4.7%
1996	93,010	5.3%	11,509	-7.9%	104,519	3.7%
1997	92,622	-0.4%	11,686	1.5%	104,308	-0.2%
1998	101,326	9.4%	5,246	-55.1%	106,572	2.2%
1999	89,322	-11.8%	6,167	17.6%	95,489	-10.4%
2000 1/	95,068	6.4%	9,872	60.1%	104,940	9.9%

Source: Industry

Note: 1/ Sales to retailers increased in late 2000 in response to stronger demand prior to enactment of the cigarette tax increase from Jan. 2001. Sales declined through the first quarter 2001 as retailers drew down carry-over stocks.

Korea: Market Share by Major Market Competitors for CY 2000

(Unit in %)

	1999		2000	
	Sales	Mkt Shr	Sales	Mkt Shr
KT&G (Korea)	89,322	93.6%	94,927	90.5%
Philip Morris (USA)	3,020	3.2%	4,372	4.2%
Japan Tobacco (Japan)	2,329	2.4%	3,724	3.6%
British American Tobacco (U.K)	798	0.8%	1,819	1.7%
Total Sales	95,469	100%	104,842	100%

Source: Industry

Korea: Market Share of Top 5 Foreign Brands Cigarettes for CY 2000

(Unit in %)

	1999	2000
Mild Seven (JT)	34.4%	34.6%
Virginia Slims (PM)	27.2%	22.6%
Dunhill (RT)	7.4%	13.2%
Marlboro (PM)	13.6%	12.1%
Philip Morris SP LTS (PM)	7.4%	8.8%
Other	10.3%	8.7%

Source: Industry

Tariffs and Taxes

Korea: Taxes and Charges for Cigarettes

(As of January 1, 2001, Unit in Won)

Tax and Charge	Retail price of over 200 Won per pack	Retail price of less than 200 Won per pack
Taxes		
* Consumption (Excise) tax	510	40
* Education Tax (40% of Consumption tax)	255	16
Charges		
* Health Fund (Public Health Promotion Supporting Fund)	2	—
* Green Fund (Public Environment Supporting Fund)	4	—
Subtotal of taxes and charges	771	55
Value added tax (10% of retail price)	10%	-
Retail Margin (10% of retail price)	10%	10%
Net Sales of KT&G	Retail price – 771 – 10% of retail price	Retail price – 55 – 10% of retail price

Source: Industry

Korea: WTO Bound Tariff Rates for Tobacco and Cigarettes 1/

HS code	Description	2000	2001	2004
2401	Unmanufactured tobacco: tobacco refuse 2/	60.8	59.1	54.0
2402	Cigars, cheroots, cigarillos, and cigarettes, of tobacco or of tobacco substitutes 3/	79.3	75.9	65.5
2403	Other manufactured tobacco and manufactured tobacco substitutes: homogenized" or "reconstituted" tobacco: tobacco extracts and essences:	79.3	75.9	65.5

1/ According to the WTO agreement, the tariff rate is scheduled to drop evenly over a 10 year period from 1995 to 2004.

2/ Actual applied rate is 20 percent.

3/ As of January 1, 2001, a flat cigarette taxes and charges of 771 won per pack is applied evenly to all cigarettes. Up to 40% of tariff on imported cigarettes is to be imposed effective from July 1, 2001 as zero percent cigarette tariff is to be expired on June 30, 2001 as KTGC's monopoly on cigarette manufacturing comes to end.